

CITY OF LOWDEN

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2011

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Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lowden, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Lowden's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2010.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2010, as discussed in the previous paragraph,

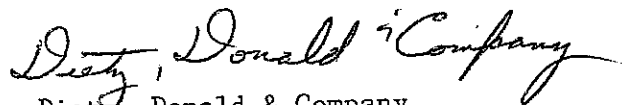
the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lowden as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2011 on our consideration of the City of Lowden's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13, and 29 and 30 are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We applied limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Lowden's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the cash balances at July 1, 2010, as it relates to Schedule 1, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa
October 20, 2011


Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

CITY OF LOWDEN
P.O. Box 310, Lowden, IA 52255
Ph. (563) 941-7705
Fax (563) 941-5870

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Lowden provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow. However, keep in mind, that Chapter 11 of the Code of Iowa requires the City to have an audit of its basic financial statements once every four years because the City's population is between 700 and 2,000. Therefore, any financial information presented herein for the fiscal year ended June 30, 2010 has not been audited.

2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 2.4%, or approximately \$ 11,000, from fiscal year 2010 to fiscal year 2011. Property tax increased approximately \$ 32,000, while loan proceeds decreased \$ 31,000.
- Disbursements of the City's governmental activities increased 10.3%, or approximately \$ 45,000 in fiscal year 2011 from fiscal year 2010. Public safety and public works disbursements increased approximately \$ 51,000 and 24,000, respectively, while general government disbursements decreased approximately \$ 41,000.
- The City's total cash basis net assets decreased 11.6%, or approximately \$ 60,000, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities decreased approximately \$ 14,000 and the assets of the business type activities decreased approximately \$ 46,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the

activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussions within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?"

The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government and capital projects. Property tax and state grants finance most of these activities.
- Business Type Activities include the water, sewer and waste collection systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Capital Projects Fund and 4) the Permanent Fund. The governmental fund financial statement provides a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and garbage funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased some what from a year ago, decreasing from approximately \$ 197,000 to approximately \$ 183,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	<u>Year Ended in June 30,</u>	
	<u>2011</u>	<u>2010</u>
Receipts:		
Program receipts:		
Charges for service	\$ 60	47
Operating grants, contributions and restricted interest	110	109
General Receipts:		
Property tax	240	208
Local option sales tax	56	47
Unrestricted interest on investments	1	1
Loan proceeds	-	37
Other general receipts	6	13
Total receipts	<u>473</u>	<u>462</u>
Disbursements:		
Public safety	113	62
Public works	123	99
Culture and recreation	90	86
Community and economic development	70	64
General government	87	128
Capital projects	1	-
Total disbursements	<u>484</u>	<u>439</u>
Change in cash basis net assets before transfers	(11)	23
Transfers, net	<u>(3)</u>	<u>13</u>
Change in cash basis net assets	(14)	36
Cash basis net assets beginning of year	<u>197</u>	<u>161</u>
Cash basis net assets end of year	<u>\$ 183</u>	<u>197</u>

The City's total receipts for governmental activities increased 2.4%, or approximately \$ 11,000. The cost of all programs and services increased approximately \$ 45,000, or 10.3%, with no new programs added this year. The significant increase in disbursements was primarily due to the purchase of a new rescue vehicle at an approximate cost of \$ 51,000.

The City increased property rates for fiscal year 2011 an average of 17%. This increase raised the City's property tax receipts approximately \$ 28,000 in fiscal year 2011. Based on a 5.3% increase in the total assessed valuation and a 9.2% increase in rates, property tax receipts are budgeted to increase an additional \$ 28,000 next year.

The cost of all governmental activities this year was approximately \$ 484,000 compared to approximately \$ 439,000 last year. However, as shown in the Statement of Activities and Net Assets on page 15, the amount taxpayers ultimately financed for these activities was only \$ 314,000 because some of the cost was paid by those directly benefited from the programs (\$ 60,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$ 110,000). Overall the City's governmental activities program receipts, including governmental aid and fees for service, increased in fiscal year 2011 from approximately \$ 156,000 to approximately \$ 170,000, principally due to receiving donations of \$ 12,000 for the rescue vehicle.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year Ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 95	93
Sewer	79	77
Garbage	58	47
	<hr/>	<hr/>
Total receipts	232	217
	<hr/>	<hr/>
Disbursements:		
Water	118	81
Sewer	107	60
Garbage	56	55
	<hr/>	<hr/>
Total disbursements	281	196
	<hr/>	<hr/>
Change in cash basis net assets before transfers	(49)	21
Transfers, net	3	(13)
	<hr/>	<hr/>
Change in cash basis net assets	(46)	8
Cash basis net assets beginning of year	324	316
	<hr/>	<hr/>
Cash basis net assets end of year	\$ 278	324

Total business type activities receipts for the fiscal year were approximately \$ 232,000 compared to approximately \$ 217,000 last year. The increase was due to an increase in garbage rates. The cash balance decreased approximately \$ 46,000 from the prior year. Total disbursements for the fiscal year increased approximately \$ 85,000 or 43.3%. This significant increase was due primarily to the City spending over \$ 67,000 to replace water meters in the City with radio-read meters.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Lowden completed the year, its governmental funds reported a combined fund balance of \$ 182,803 a decrease of more than \$ 14,000 from last year's total of \$ 197,090. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$ 47,041 from the prior year to a deficit of \$ 2,342. The primary reason for this decrease was due to the City contributing \$ 24,000 to the Little Home Day Care Center.
- The Special Revenue, Road Use Tax Fund cash balance increased \$ 5,703 to \$ 5,703.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$ 19,575 to \$ 110,314. Citizens voted to use sales tax revenue for infrastructure needs in the City.
- The Special Revenue, Urban Renewal Tax Increment Fund had a cash balance of \$ 47,187 at the end of the fiscal year, an increase of \$ 7,828 from the previous year. Nearly \$ 41,000 was disbursed for a developer rebate agreement.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$ 22,029 to \$ 58,750 due primarily to purchasing new water meters.
- The Enterprise, Sewer Fund cash balance decreased \$ 26,067 to \$ 216,672, due primarily to purchasing new water meters.
- The Enterprise, Garbage Fund cash balance increased \$ 1,981 to \$ 2,191.

BUDGETARY HIGHLIGHTS

During the year, the City amended its budget once. The amendment was approved June 6, 2011 and increased budgeted disbursements \$ 143,000, due

primarily to the purchase of the new rescue vehicle, the water meter replacement program and assistance to the Little Home Day Care Center.

The City's receipts were \$ 56,342 more than budgeted. This was primarily due to \$ 34,000 of Memorial Park receipts that are not included in the budget process.

Even with the budget amendment, total disbursements were \$ 37,777 more than budgeted. However, actual disbursements for the general government function were \$ 55,859 less than budgeted.

The City exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development, capital projects and business type activities functions.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$ 368,077 in long-term debt outstanding compared to \$ 358,311 last year as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
<hr/>		
		June 30,
		<hr/>
	2011	2010
	<hr/>	<hr/>
General obligation note	\$ 25	31
Revenue note	323	327
Land contract	20	-
	<hr/>	<hr/>
Total	\$ 368	358
	<hr/>	<hr/>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The current constitutional debt limit is approximately \$ 1.8 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Lowden's elected and appointed officials and citizens considered many factors, such as the economy, inflation and City needs, when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities. The City's population decreased 5 persons from 2000 to 2010. The City will continue to assist the day care center in 2012 and has purchased land for the construction of a new wastewater treatment plant.

These factors were taken into account when adopting the budget for fiscal year 2012. Amounts available for appropriation in the operating budget are approximately \$ 670,000, an increase of 3% over the final fiscal year 2011 budget. Property tax (benefiting from the fiscal 2011 and 2012 rate increases and increases in assessed valuations) are expected to lead this increase. The City will use these increases in receipts to finance programs we currently offer and to bring the General Fund back to a positive balance. Budgeted disbursements are expected to drop approximately \$ 116,000. The City has added no major new programs or initiatives to the fiscal year 2012 budget.

If these estimates are realized the City's budgeted cash balance is expected to increase approximately \$ 56,000 by the close of fiscal year 2012.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Peggy Kedley, City Clerk, P.O. Box 310, Lowden, Iowa 52255.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF LOWDEN
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS
As of and for the Year Ended June 30, 2011

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Operating Grants, Contributions and Restricted Interest	Charges for Service	Disbursements	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental Activities:						
Public safety	12,598	10,976	\$ 112,993	(89,419)	-	(89,419)
Public works	76,346	16,462	123,305	(30,497)	-	(30,497)
Culture and recreation	20,585	29,073	90,366	(40,708)	-	(40,708)
Community and economic development	-	1,347	69,838	(68,491)	-	(68,491)
General government	-	2,341	86,951	(84,410)	-	(84,410)
Capital projects	-	-	414	(414)	-	(414)
Total governmental activities	109,529	60,399	483,867	(313,939)	-	(313,939)
Business type activities:						
Water	-	94,324	118,087	-	(23,763)	(23,763)
Sewer	-	78,657	106,808	-	(28,151)	(28,151)
Garbage	-	57,821	55,840	-	1,981	1,981
Total business type activities	109,529	230,802	280,735	-	(49,933)	(49,933)
Total		291,201	764,602	(313,939)	(49,933)	(363,872)
General Receipts and Transfers:						
Property and other city tax	-	-	-	190,096	-	190,096
Tax increment financing	-	-	-	49,894	-	49,894
Local option sales tax	-	-	-	56,057	-	56,057
Unrestricted interest on investments	-	-	-	1,204	350	1,554
Miscellaneous	-	-	-	5,869	-	5,869
Transfers	-	-	-	(3,468)	3,468	-
Total general receipts and transfers	-	-	-	299,652	3,818	303,470
Change in cash basis net assets	-	-	-	(14,287)	(46,115)	(60,402)
Cash basis net assets beginning of year	-	-	-	197,090	323,728	520,818
Cash basis net assets end of year	-	-	-	\$ 182,803	277,613	460,416
Restricted:						
Nonexpendable:						
Cemetery perpetual care	-	-	-	\$ 19,624	-	19,624
Expendable:						
Streets	-	-	-	5,703	-	5,703
Infrastructure	-	-	-	110,314	-	110,314
Urban renewal purposes	-	-	-	47,187	-	47,187
Day care center	-	-	-	2,317	-	2,317
Unrestricted	-	-	-	(2,342)	277,613	275,271
Total cash basis net assets	-	-	-	\$ 182,803	277,613	460,416

See notes to financial statements.

CITY OF LONDON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2011

Exhibit B

	Special Revenue					
	General	Road Use Tax	Local Option Sales Tax	Urban Renewal Tax Increment	Nonmajor	Total
Receipts:						
Property tax	\$ 190,096	-	-	-	-	190,096
Tax increment financing	-	-	-	49,894	-	49,894
Other city tax	-	-	56,057	-	-	56,057
Licenses and permits	2,266	-	-	-	-	2,266
Use of money and property	5,882	-	-	-	62	5,944
Intergovernmental	32,180	76,346	-	-	-	108,526
Charges for service	21,222	-	-	-	-	21,222
Miscellaneous	39,043	-	-	-	-	39,043
Total receipts	290,689	76,346	56,057	49,894	62	473,048
Disbursements:						
Operating:						
Public safety	112,993	-	-	-	-	112,993
Public works	16,180	70,643	36,482	-	-	123,305
Culture and recreation	90,366	-	-	-	-	90,366
Community and economic development	27,772	-	-	42,066	-	69,838
General government	86,951	-	-	-	-	86,951
Capital projects	-	-	-	-	414	414
Total disbursements	334,262	70,643	36,482	42,066	414	483,867
Excess (deficiency) of receipts over (under) disbursements	(43,573)	5,703	19,575	7,828	(352)	(10,819)
Other financing uses:						
Operating transfers out	(3,468)	-	-	-	-	(3,468)
Net change in cash balances	(47,041)	5,703	19,575	7,828	(352)	(14,287)
Cash balances, beginning of year	44,699	-	90,739	39,359	22,293	197,090
Cash balances, end of year	\$ (2,342)	5,703	110,314	47,187	21,941	182,803
Cash Basis Fund Balances:						
Nonspendable	\$ -	-	-	-	19,624	19,624
Restricted	56,428	5,703	110,314	47,187	2,317	165,521
Committed	(58,770)	-	-	-	-	56,428
Unassigned	\$ (2,342)	5,703	110,314	47,187	21,941	182,803
Total cash basis fund balances						

See notes to financial statements.

CITY OF LOWDEN
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2011

	Enterprise			
	Water	Sewer	Garbage	Total
Operating receipts:				
Charges for service	\$ 94,324	78,657	57,821	230,802
Operating disbursements:				
Business type activities	118,087	96,808	55,840	270,735
Excess (deficiency) of operating receipts over (under) operating disbursements	(23,763)	(18,151)	1,981	(39,933)
Non-operating receipts (disbursements):				
Interest on investments	-	350	-	350
Capital projects	-	(10,000)	-	(10,000)
Net non-operating receipts (disbursements)	-	(9,650)	-	(9,650)
Excess (deficiency) of receipts over (under) disbursements	(23,763)	(27,801)	1,981	(49,583)
Operating transfers in	1,734	1,734	-	3,468
Net change in cash balances	(22,029)	(26,067)	1,981	(46,115)
Cash balances beginning of year	80,779	242,739	210	323,728
Cash balances end of year	\$ 58,750	216,672	2,191	277,613
 Cash Basis Fund Balances				
Unrestricted	\$ 58,750	216,672	2,191	277,613

See notes to financial statements.

CITY OF LOWDEN

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Lowden is a political subdivision of the State of Iowa located in Cedar County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Lowden has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Cedar County Assessor's Conference Board, Cedar County Emergency Management Commission, Cedar County Landfill

Commission, Cedar County Joint E911 Service Board and Eastern Iowa Regional Housing Authority Commission.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of the net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial

statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the voter approved 1% local option sales tax to be used for infrastructure.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The City reports the following major proprietary funds:

The Water fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Garbage Fund accounts for the operation and maintenance of the City's solid waste disposal system.

C. Measurement Focus and Basis of Accounting

The City of Lowden maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City. At June 30, 2011 all investments mature in 300 days or less.

(3) Cash Basis Fund Balances

The detail of the Governmental Funds, Cash Basis Fund Balances is as follows:

	General	Road Use Tax	Local Option Sales Tax	Urban Renewal Tax Increment	Other Funds	Total
Fund Balances:						
Nonspendable:						
Cemetery perpetual care	\$ -	-	-	-	19,624	19,624
Restricted:						
Streets	-	5,703	-	-	-	5,703
Infrastructure	-	-	110,314	-	-	110,314
Urban renewal purposes	-	-	-	47,187	-	47,187
Day care center	-	-	-	-	2,317	2,317
Committed:						
Fire department acquisitions	3,080	-	-	-	-	3,080
Rescue squad acquisitions	1,504	-	-	-	-	1,504
Library acquisitions	9,650	-	-	-	-	9,650
Parks	27,770	-	-	-	-	27,770
Cemetery	14,424	-	-	-	-	14,424
Unassigned	(58,770)	-	-	-	-	(58,770)
Total fund balances	\$ (2,342)	5,703	110,314	47,187	21,941	182,803

(4) Long-Term Debt

Annual debt service requirements to maturity for general obligation notes, the land contract and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Land Contract	
	Principal	Interest	Principal	Interest
2012	\$ 5,957	1,146	10,000	-
2013	6,225	878	10,000	-
2014	6,506	597	-	-
2015	6,776	327	-	-
Total	25,464	2,948	20,000	-

Year Ending June 30,	Revenue Notes		Total	
	Principal	Interest	Principal	Interest
2012	\$ 3,909	13,635	19,866	14,781
2013	4,078	13,466	20,303	14,344
2014	4,255	13,289	10,761	13,886
2015	4,439	13,105	11,215	13,432
2016	4,631	12,913	4,631	12,913
2017-2021	26,347	61,373	26,347	61,373
2022-2026	32,573	55,147	32,573	55,147
2027-2031	40,270	47,450	40,270	47,450
2032-2036	49,786	37,934	49,786	37,934
2037-2041	61,551	26,169	61,551	26,169
2042-2046	76,095	11,625	76,095	11,625
2047	14,679	293	14,679	293
Total	\$ 322,613	306,399	368,077	309,347

Revenue Notes

The City has pledged future rental payments to repay \$ 330,000 of United States Department of Agriculture revenue notes issued in July, 2007. Proceeds from the notes provided financing for the construction of a building to be used as a day care center. The notes are payable solely from rental payments made by Little Home Day Care Center, Inc. with whom the City has signed a management agreement. The total principal and interest remaining to be paid on the notes is \$ 629,012. For the current year, principal and interest paid were \$ 19,006 and \$ 1,374, respectively.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the fund.
- (b) A monthly transfer of \$ 147 to a reserve account within the Enterprise Funds shall be made until a balance of \$ 17,544 has been accumulated. This account can be used to make note principal and interest payments if necessary.
- (c) An additional monthly transfer of \$ 688 to a depreciation reserve account within the Enterprise Funds shall be made. This account

is restricted for the purpose of paying for any additional improvements, expansion or repairs of the building.

(d) No prepayments can be made before 2017.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to: IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2011 was \$ 8,514, equal to the required contribution for the year.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 3,000
Sick leave	<u>5,000</u>
Total	<u><u>\$ 8,000</u></u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows

Transfer to	Transfer from	Amount
Enterprise:		
Water	General	\$ 1,734
Sewer	General	<u>1,734</u>
Total		<u>\$ 3,468</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$ 27,392 during the year ended June 30, 2011.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the fiscal year ended June 30, 2011.

(10) Development Agreement

The City has entered into a development agreement to assist in an urban renewal project. The City agreed to rebate 80% of the incremental tax paid by a developer in exchange for certain public improvements related to the development of housing made by the developer. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of fifteen years, beginning December 1, 2001. The total to be paid by the City under this agreement is not to exceed \$ 199,068.

During the year ended June 30, 2011, the City rebated \$ 40,866 of incremental tax under this agreement. The maximum remaining balance at June 30, 2011 was \$ 5,523.

(11) Deficit Balance

The General Fund had a deficit balance of \$ 2,342 at June 30, 2011. The deficit balance was a result of unanticipated expenses. The City has increased property tax rates to address this issue.

(12) Non-Cash Transactions

The City traded a John Deere 6310 Tractor/loader for a John Deere 6330 tractor/loader as follows:

Cost of John Deere 6330	\$ 75,300
Downpayment made fiscal year ended June 30, 2010	(25,000)
Trade-in allowance	<u>(33,500)</u>
 Payment made fiscal year ended June 30, 2011	 <u>\$ 16,800</u>

The City traded a John Deere 750 mower for a John Deere X720 mower as follows:

Cost of John Deere X720	\$ 8,670
Down payment made fiscal year ended June 30, 2010	(2,335)
Trade-in allowance	<u>(4,000)</u>
 Payment made fiscal year ended June 30, 2011	 <u>\$ 2,335</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LONDON
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2011

	Governmental Funds		Proprietary Funds		Total	Budgeted Amounts		Final to Total Variance
	Actual		Actual			Original	Final	
Receipts:								
Property tax	\$ 190,096	-	-	-	190,096	183,209	183,209	6,887
Tax increment financing	49,894	-	-	-	49,894	40,000	40,000	9,894
Other city tax	56,057	-	-	-	56,057	55,959	55,959	98
Licenses and permits	2,266	-	-	-	2,266	1,975	1,975	291
Use of money and property	5,944	350	-	-	6,294	5,270	5,270	1,024
Intergovernmental	108,526	-	-	-	108,526	113,895	113,895	(5,369)
Charges for service	21,222	230,802	-	-	252,024	241,100	241,100	10,924
Miscellaneous	39,043	-	-	-	39,043	6,450	6,450	32,593
Total receipts	473,048	231,152	-	-	704,200	647,858	647,858	56,342
Disbursements:								
Public safety	112,993	-	-	-	112,993	60,255	108,255	(4,738)
Public works	123,305	-	-	-	123,305	89,445	89,445	(33,860)
Culture and recreation	90,366	-	-	-	90,366	65,275	65,275	(25,091)
Community and economic development	69,838	-	-	-	69,838	53,540	53,540	(16,298)
General government	86,951	-	-	-	86,951	142,810	142,810	55,859
Capital projects	414	-	-	-	414	-	-	(414)
Business type activities	-	280,735	-	-	280,735	173,500	268,500	(12,235)
Total disbursements	483,867	280,735	-	-	764,602	584,825	727,825	(36,777)
Excess (deficiency) of receipts over (under) disbursements	(10,819)	(49,583)	-	-	(60,402)	63,033	(79,967)	19,565
Other financing sources, net	(3,468)	3,468	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(14,287)	(46,115)	-	-	(60,402)	63,033	(79,967)	19,565
Balances beginning of year	197,090	323,728	-	-	520,818	500,692	500,692	20,126
Balances end of year	\$ 182,803	277,613	-	-	460,416	563,725	420,725	39,691

See accompanying independent auditor's report and notes to required supplementary information - budgetary reporting.

CITY OF LOWDEN
Notes to Required Supplementary Information - Budgetary Reporting
June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$ 143,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development, capital projects, and business type activities functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF LOWDEN
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 As of and for the Year Ended June 30, 2011

	Capital Projects	<u>Permanent Cemetery Perpetual Care</u>	Total
Receipts:			
Use of money and property	\$ -	62	62
Disbursements:			
Capital projects	414	-	414
Excess (deficiency) of receipts over (under) disbursements	(414)	62	(352)
Balance beginning of year	2,731	19,562	22,293
Balance end of year	<u>\$ 2,317</u>	<u>19,624</u>	<u>21,941</u>
 Cash Basis Fund Balances			
Nonspendable-Cemetery perpetual care	\$ -	19,624	19,624
Restricted for day care center	2,317	-	2,317
Total cash basis fund balances	<u>\$ 2,317</u>	<u>19,624</u>	<u>21,941</u>

See accompanying independent auditor's report.

CITY OF LONDON
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2011

Schedule 2

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation note:								
Fire truck	Apr 7, 2009	4.50%	\$ 37,743	31,164	-	5,700	25,464	1,403
Revenue note:								
Day care center	Jul 19, 2007	4.25%	\$ 330,000	327,147	-	4,534	322,613	14,472
Land contract	Jul 1, 2010	0%	\$ 30,000	-	30,000	10,000	20,000	-

See accompanying independent auditor's report.

CITY OF LOWDEN
DEBT MATURITIES
June 30, 2011

Year Ending June 30,	General Obligation Notes		Revenue Notes		Land Contract	
	Fire Truck		Day Care Center		Wastewater Treatment Plant	
	Issued Apr 7, 2009		Issued Jul 19, 2007		Issued Jul 1, 2010	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2012	4.50%	\$ 5,957	4.25%	\$ 3,909	0%	\$ 10,000
2013	4.50	6,225	4.25	4,078	0	10,000
2014	4.50	6,506	4.25	4,255		
2015	4.50	6,776	4.25	4,439		-
2016		-	4.25	4,631		-
2017		-	4.25	4,832		-
2018		-	4.25	5,041		-
2019		-	4.25	5,260		-
2020		-	4.25	5,488		-
2021		-	4.25	5,726		-
2022		-	4.25	5,974		-
2023		-	4.25	6,233		-
2024		-	4.25	6,503		-
2025		-	4.25	6,785		-
2026		-	4.25	7,079		-
2027		-	4.25	7,386		-
2028		-	4.25	7,706		-
2029		-	4.25	8,040		-
2030		-	4.25	8,388		-
2031		-	4.25	8,751		-
2032		-	4.25	9,131		-
2033		-	4.25	9,526		-
2034		-	4.25	9,939		-
2035		-	4.25	10,370		-
2036		-	4.25	10,819		-
2037		-	4.25	11,288		-
2038		-	4.25	11,778		-
2039		-	4.25	12,288		-
2040		-	4.25	12,821		-
2041		-	4.25	13,376		-
2042		-	4.25	13,956		-
2043		-	4.25	14,561		-
2044		-	4.25	15,192		-
2045		-	4.25	15,850		-
2046		-	4.25	16,537		-
2047		-	4.25	14,677		-
Total		<u>\$ 25,464</u>		<u>\$ 322,613</u>		<u>\$ 20,000</u>

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lowden, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 20, 2011. Our report on the financial statements, which were prepared in conformity with an other basis of accounting, expressed qualified opinions since we were not able to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2010. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lowden's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Lowden's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lowden's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses

and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Lowden's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-11 and I-B-11 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lowden's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Lowden's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Lowden's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Lowden and other parties to whom the City of Lowden may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Lowden during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

October 20, 2011

Dietz, Donald & Company
Dietz, Donald and Company
FEIN 42-1172392

CITY OF LOWDEN
SCHEDULE OF FINDINGS
Year Ended June 30, 2011

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-11 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual may have control over the following areas:

- (1) Cash - initiating cash receipts and disbursement transactions and handling and recording cash.
- (2) Long-term debt - recording and reconciling.
- (3) Receipts - collecting, depositing, journalizing, posting and reconciling.
- (4) Disbursements - preparing, recording and reconciling.
- (5) Payroll - preparing and distributing.
- (6) Accounting system - performing all general accounting functions and having custody of assets.
- (7) Computer usage - performing all general accounting functions, preparation of journal entries and controlling data input and output.

Recommendations - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should utilize current personnel and officials to the extent possible to provide additional control through review of financial transactions, reconciliations and reports. Such independent reviews should be performed by an independent individual(s) and should be evidenced by initials or signature of the reviewer and date of the review.

CITY OF LOWDEN
SCHEDULE OF FINDINGS
Year Ended June 30, 2011

Response - We currently use the Treasurer for various review and reconciliation procedures. We will continue to investigate further ways to improve internal control.

Conclusion - Response acknowledged. The City has made good use of existing personnel and hopefully with heightened awareness can find additional ways to improve internal control.

- I-B-11 Financial Reporting - As is common in small organizations, the City does not prepare its financial statements, complete with notes, in accordance with U.S. generally accepted accounting principles. Accordingly, the City is unable to, and has not established internal control over the preparation of financial statements.

Recommendation - As part of the audit, we have been requested to prepare a draft of the City's financial statements, including related notes to the financial statements. The City then performs a review of the financial statements. However, in order to provide improved oversight of the financial preparation services and implement controls over the financial reporting process the City should establish review policies and procedures including the performance of some or all of the following functions:

Review the adequacy of financial statement disclosures.

Review and approve schedules and calculations supporting amounts included in the notes to the financial statements.

Apply analytical procedures to the draft financial statements.

Apply other procedures as considered necessary by the City.

Response - As the City is only required to prepare complete financial statements once every four years, we will more than likely continue to use our auditor to prepare our financial statements, but we will look for ways to improve our review of the draft financial statements.

CITY OF LOWDEN
SCHEDULE OF FINDINGS
Year Ended June 30, 2011

Conclusion - Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-11 Certified Budget - Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development, capital projects, and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed budget.

Response - We amended the budget June 6, 2011, but apparently did not increase budgeted amounts enough or in the proper functions. The budget will be amended properly in the future, if applicable.

Conclusion - Response noted, but you need to make sure the budget amendment is passed before budgeted amounts are exceeded and before June 1.

- II-B-11 Questionable Disbursements - We noted no disbursements for parties, banquets, or other entertainment that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General opinion dated April 25, 1979.
- II-C-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-11 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

CITY OF LOWDEN
SCHEDULE OF FINDINGS
Year Ended June 30, 2011

Name, Title and Business Connection	Transaction Description	Amount
Dan Hamdorf, Mayor, son of owner and employee JJJ Enterprises	Snow removal, dig out creek, other work	\$ 22,107
Galen Conrad, Council Member, employee of Ag Vantage FS	LP, Fuel	3,049
James Olsen, Council Member, owner of Olsen's	Refrigerator, parts and supplies	1,429
Lisa Decker, Council Member, partner in Two Friends Gift and Flower	Park cleaning Plants and flowers	633 172

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with Council Members Olsen and Decker do not appear to represent conflicts of interest since total transactions with each individual were less than \$ 2,500 during the fiscal year. However, the transactions with JJJ Enterprises and Ag Vantage FS may represent a conflict of interest as the transactions do not appear to meet any of the safe harbor provisions of Chapter 362.5(3).

Recommendation - The City should consult legal counsel to determine disposition of this matter.

Response - We will follow up on this matter.

Conclusion - Response accepted.

II-E-11 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

II-F-11 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

CITY OF LOWDEN
SCHEDULE OF FINDINGS
Year Ended June 30, 2011

II-G-11 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-11 Revenue Notes - The City has not established the reserve accounts required by the revenue note resolution. Additionally, the day care center has not been able to pay rent and monthly note payments have been made from the General Fund.

Recommendation - The City should establish the reserve accounts required by the revenue note resolution. Additionally, the City should consult legal counsel to determine the consequences of insufficient revenues to retire the revenue notes.

Response - We have been in contact with our bond counsel. The day care center's finances appear to be improving and we have received some payments from them and are in the process of establishing the required reserve accounts.

Conclusion - Response accepted.

II-I-11 Financial Condition - The General Fund had a deficit balance of \$ 2,342 at June 30, 2011.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - The City has raised tax rates the last two years and anticipates that the deficit will be eliminated by the end of fiscal year 2012.

Conclusion - Response accepted.

II-J-11 Employee Benefits Levy - The City recorded receipts from its employee benefits levies to the General Fund.

Recommendation - The FICA and IPERS and Other Employee Benefits are established by Rule as special revenue levies, therefore the City should establish a special revenue fund to collect and disburse the employee benefit levies.

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Response - The City will establish a special revenue fund for these levies.

Conclusion - Response accepted.